

Extension of Southern Expressway Project- Section I - 2017

The audit of financial statements of the Extension of Southern Expressway Project Section - I for the year ended 31 December 2017 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Loan Agreements No. PBC No. (2014) 27 Total No.321 dated 23 December 2014 and No. PBC No. (2014) 27 Total No.321A(1) dated 11 December 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the Export Import Bank of China.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, the Ministry of Road and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The main objective of the Project is to develop the road network to support and facilitate to the Hambantota International Hub Development activities. The Project estimated cost of the construction works of the extension of 30 kilometers of the Southern Expressway from Matara to Beliatte under the Section - 01 of the Project amounted to Rs. 103,280 million and out of that US\$ 683.49 million equivalent to Rs. 87,788 million was agreed to be provided by the Export Import Bank of China for the civil and consultancy works. The construction works of the Expressway under Section - I of the Project had been commenced on 19 January 2016 and scheduled to be completed by 18 July 2019.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the followings.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.

- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (h) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Public Sector Accounting Standards, and
- (b) the funds provided had been utilized for the purposes for which they were provided.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreements		Allocation made in the Budget Estimate for the year 2017	Funds utilized	
	US\$ million	Rs. million	Rs. million	during the year 2017 Rs. million	up to 31 December 2017 Rs. million
Export Import Bank of China	683.49	87,788.00	22,865.00	22,864.51	46,665.71
GOSL	120.62	15,492.00	3,690.43	3,156.79	12,407.15
GOSL(Land)			1,465.48	1,465.49	1,972.63
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Total	804.11	103,280.00	28,020.91	27,486.79	61,045.49
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3.2 Physical Progress

The overall physical progress of the construction works of the extension of 30 kilometres of the Southern Expressway from Matara to Beliatta under the Section I of the Project required to achieved 47.72 per cent of physical progress had achieved at 51.67 per cent as at 31 December 2017.

3.3 Contract Administration

The following observations are made.

- (a) Initial drawings for the structural works of the Expressway prepared in 2016 had been revised subsequently in 2017 to fulfill the requirements of the Sri Lanka Land Development Corporation. Therefore, the designs of 21 underpasses of the Expressway had been increased up to the designs of 28 underpasses. Further, the designs of 17 bridges and 84 culverts had been reduced to construct 06 bridges and 69 culverts only.
- (b) Bill of Quantities for the construction works of 30 kilometres of 70 local roads to be rehabilitated by the Project had not been prepared separately. Further, it was observed that the rates for the construction of the Expressway had been applied to rehabilitate local roads which were higher than the expressway road.
- (c) Contractor of the Project had disposed construction and other wastages in improper manner in a land owned by the outside party and the owner of the land had additionally claimed Rs.8 million on damages caused on disposal of garbage.

3.4 Issues on Financial Controls

The Board of Survey on inventory items of the Project required to be carried out at the end of each financial year as per Financial Regulation 756. However, Board of Survey had not been carried out as enable to verify the physical existence and custodian of the respective assets.

3.5 Human Resource Management

The key positions such as Senior Toll System Designer and Installation Engineer, Senior Toll Facilities Design and Installation Engineer and Senior Traffic Road Safety Engineer of the Project had remained vacant since the inception of the activities of the Project.